

Specter of bankruptcy raised in L.A.

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Offering a dire warning about potential bankruptcy, Los Angeles City Administrative Officer Miguel Santana said Friday the city will need to raise taxes, clamp down on employee pay and consider layoffs in order to keep solvent.

Santana issued a report that begins with "a cautionary tale" about the city of Stockton, which is teetering on the edge of bankruptcy, and how, like Los Angeles, it has relied on a series of one-time revenue sources to balance its budget.

Los Angeles needs to adopt a policy of going "from crisis management to strategic planning," Santana said, by looking at the cost of delivering services, the number of workers it has and by seeking new revenue sources.

The report comes two weeks before Mayor Antonio Villaraigosa - who recently also warned of possible salary freezes and layoffs - releases his budget for the coming year.

Santana went further in proposing an increase in the documentary transfer tax, which is imposed on property sales - currently at the rate of \$4.50 per \$1,000 of the property's value, in addition to the county's own documentary transfer tax of .55 per \$500.

He said the city could raise the tax enough to generate \$100 million in revenue.

He also suggested raising the parking tax from 10 percent to 15 percent, bringing in another \$40 million.

"There are many who feel the taxes are high enough already and that expenditure cuts must come first," Santana said. "This is a sentiment that has resonated with city leaders as reflected in the approach taken to address the structural deficit which, up to now, has not relied on an increase to any of the general fund taxes.

"Nonetheless, the pursuit of new revenue sources is a strategy that can no longer be delayed."

Santana said he also believes city workers' pay needs to be frozen.

"The rise in the city's labor costs has not been as a result of increased employment levels, but rather increases in what the city spends on health care for employees, workers' compensation, employee compensation and retirement benefits," Santana said.

There is an agreement to provide cost-of-living adjustments of 11 percent for the next two years and 11.75 percent for deputy city attorneys.

"It is not sustainable without further reductions to the workforce and essential public services," Santana said. "In addition, these increases create substantial compensation inequity within the workforce. This will result in significant pressure from other unions."

Santana suggested the city look at developing a tiered pay system for new employees, similar to what is being done in the Police Department, where new hires are paid less than current workers.

Part of the problem the city has with salaries is the difference between what is paid to workers for the Department of Water and Power and other city staff.

"Severing the employment relationship between the city and the DWP must also be considered," Santana said. "Severing the employment relationship in the long term would allow each organization to meet its public service commitments and employee compensation demands more effectively."

Also, as the mayor suggested, the city should look at increasing its retirement age for city workers to reduce its pension costs, he said.

As part of that, he said the city should look at reducing the automatic cost of living adjustments for retired worker, control future medical costs and require pensions to be based on an average of the final five years of pay.

Looking ahead, Santana also cautioned the City Council to not rush into increasing funding for any agency, particularly the Los Angeles Fire Department, where there has been a move to restore \$43 million in funding cut in recent years.

"If the city's top priority continues to be maintaining or enhancing the service level, outside of identifying and implementing some type or revenue increase, the city will be faced with the prospect of eliminating positions in other departments," Santana said.

An aide to Villaraigosa said the report reflects the mayor's concerns about the budget.

"In order to eliminate the structural deficit, it is clear that we will need a balance between cuts in spending and an increase in our revenue base," spokesman Peter Sanders said.

"The mayor's budget will advance some of the concepts discussed in Santana's report."

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